

**Dated March 5, 1999**



**NATIONAL CREDIT UNION ADMINISTRATION  
YEAR 2000 QUARTERLY CONGRESSIONAL UPDATE**

**As of December 31, 1998**

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## **OVERVIEW**

Credit unions continue to progress through the final phases of their Year 2000 remediation efforts. As of December 31, 1998, one month before the January milestone date for completing renovations, the number of credit unions rated Needs Improvement has decreased by more than half since our previous report. Based on December's results, we planned our supervision for the milestone of January 31, 1999. Year-end Quarterly Report statistics indicate that vendor-supported credit unions continue to receive renovated systems, moving their reporting status out of renovation and into testing - the number of Renovated credit unions increased from September's total of 50%, to 74%. Nearly all credit unions still renovating as of December 31, 1998, were on course to complete renovations by January 31, 1999.

NCUA completed its Year 2000 remediation efforts for all critical internally supported systems - our recent report to the Office of Management and Budget which details our internal remediation efforts can be found in Attachment 3.

## **MILESTONE DATES**

NCUA established milestone dates for credit unions for Year 2000 remediation action in 1998 (please see Milestone table below). The milestone dates established benchmark time frames for actions to begin Year 2000 efforts, demonstrate substantial progress, then become substantially complete. We developed an automated program to assist in monitoring Year 2000 Quarterly Credit Union Reports. Later, the FFIEC adopted milestone dates with slightly different time frames.<sup>1</sup> We felt that our dates were sufficient to address the remediation process for credit unions and chose not to change our dates and add confusion to the process. Our dates are also close to the dates recommended in GAO's Report, "Year 2000 Computing Crisis: An Assessment Guide."

Milestone Table:

Phase	Milestone Date	Action Required
Assessment	2/28/98	Assessment complete.
Renovation	9/30/98	Renovation substantially complete.
	1/31/99	Renovation complete.
Testing	8/31/98	Begin if renovated critical systems are available to test.
	12/31/98	Demonstrate progress testing.
	6/30/99	Complete final testing
Implementation	7/31/99	Substantially complete implementing
	9/30/99	Complete Implementation

<sup>1</sup> For example: NCUA's testing milestone of 12/31/98 calls for substantial progress compared to the FFIEC testing date of 12/31/98 which calls for substantially complete.

## **INDUSTRY CHARACTERISTICS**

Over 90% of credit unions are vendor supported and very few credit unions have in-house credit union-developed systems. As a result, the relationship between the credit union and its vendor is very important. We have instructed credit unions to complete the Year 2000 Quarterly Credit Union Report in a manner which reflects this relationship. Our instructions are as follows:

*"If a vendor is in the renovation phase for a system, report that system in the 26% to 50% completion category. If the vendor is in the testing phase, report that system in the 51% to 75% completion category. If the vendor is in the implementation phase, report that system in the 76% to 99% completion phase."*

As a result of this reporting methodology, credit unions continue to report in the renovation phase even though many are involved in testing and implementation efforts.

Our Vendor Review Program involved on-site reviews of 44 credit union information systems vendors (ISV) which cumulatively serve 86% of the credit union industry. Our Program concluded that all credit union ISVs were progressing overall in a satisfactory manner and proactively working with their credit union clients.

## **INDUSTRY PROGRESS**

### ***Credit Union Remediation Status***

Each credit union receives a Year 2000 supervisory risk rating which is updated by the field examiner after an examination, supervision contact, or occurrence of a significant event.

The breakdown of federally insured credit unions' ratings, including corporate credit unions, based on the milestone dates established in the NCUA contingency plan are as follows:

<b>Rating</b>	<b>12/31/98</b>	<b>12/9/98 Report</b>	<b>9/10/98 Report</b>
Unsatisfactory	54	35	29
Needs Improvement	238	512	895
Satisfactory	10,642	10,460	10,525
Unrated <sup>2</sup>	99	99	146
Non-Federally Insured <sup>3</sup>			(475)
<b>Total</b>	<b>11,033</b>	<b>11,106</b>	<b>11,120</b>

Credit unions rated as Unsatisfactory are issued a formal action which contains specific direction and deadlines for actions to be completed. Of the 54 formal actions

<sup>2</sup> Unrated credit unions refer to credit union of which we are lacking a data input form; examples being: newly chartered credit unions; manual credit unions; recent charter conversions; and state-chartered credit unions in states which are not participating fully with our rating program. We are in the process of obtaining a data input form on these credit unions. Although we lack the input form, we are fully aware of the Year 2000 remediation efforts of these credit unions.

<sup>3</sup> In September report, we included statistics on non-federally insured credit unions - the majority reported in the Satisfactory category - we no longer report on non-federally insured credit unions.

outstanding, 29 consist of either Preliminary Warning Letters or Regional Director Letters; 18 consist of Letters of Understanding and Agreement; and 7 are Memoranda of Understanding.

Those credit unions rated Needs Improvement receive increased supervision which entails increased monitoring, meeting with credit union officials, and more frequent contact, both on-site as well as off-site. As can be seen by the table on the previous page, credit unions rated, "Needs Improvement," continue to improve.

### ***Year 2000 Quarterly Credit Union Report***

Those federally insured credit unions utilizing a computerized record keeping system which have not completely implemented all mission critical systems continue to report their Year 2000 remediation progress quarterly. Credit unions continue to demonstrate good progress with respect to renovating, testing, and implementing mission critical systems.

The table below presents the results from the December and September cycles.

<b>Phase</b>	<b>12/31/98</b>	<b>%</b>	<b>9/30/98</b>	<b>%</b>
Testing	4,405	40%	3,739	34%
Implementing	1,554	14%	746	7%
Done	2,206	20%	980	9%
Fully Renovated	8,165	74%	5,465	50%
Renovating	2,868	26%	5,641	50%
Total	11,033	100%	11,106	100%

As indicated earlier, vendor-supported credit unions are required to report in the renovation phase until they receive their Year 2000 compliant systems. Despite the large number of credit unions still in the renovation phase as of December 31, 1998, individual credit union reviews have confirmed that very few credit unions (54) are considered to be making Unsatisfactory progress.

The number of credit unions still renovating has decreased since September 30, 1998, from 5,641, to 2,868. Credit unions still in renovation represent 26% of all credit unions. As discussed earlier, these credit unions are either awaiting the final delivery of remediated systems, or awaiting receipt of renovated smaller systems, such as ACH, ATM or share draft systems. Please see Attachment 2 for year-end Quarterly Report Renovation statistics.

The impact of vendor-supported credit unions can be seen in the Renovation phase of Attachment 1: Credit unions reporting systems in the Renovation phase which are 76% renovated or greater have increased to 94% from 81% the quarter prior.

Each region is in the process of ensuring that any credit union which reported less than 100% Renovation as of December 31, 1998, has either a waiver or administrative

action in place by March 31, 1999. These plans include on-site contacts; meetings with management; off-site monitoring and increased supervision.

In reviewing the quarterly data, it is important to remember that most credit unions have multiple mission critical systems, and may report some systems in renovation, some in testing, and some systems as already implemented. Therefore, a credit union may be in one or more phase of each category. By reviewing the number of systems on Attachment 1, one can see the effect of multiple systems.

### ***Waivers***

In some cases, a credit union may be progressing in a satisfactory manner, but also be outside the time frames established by the NCUA. Credit unions falling into this category are reviewed by the regional director and our Office of Examination and Insurance, and may be granted a waiver based on their specific factual situation. Waivers are monitored on a monthly basis. As of this report, there are 230 waivers outstanding. NCUA has granted 287 waivers, and removed 57 waivers since the beginning of our program.

### **PHASE III PROGRAM**

NCUA's Phase III Y2K program will focus on ensuring credit unions and their vendors meet our established milestone dates in regards to testing, implementation, contingency planning, and liquidity planning. We will continue to use a risk-based approach to identify credit unions which have either fallen behind, or are in danger of falling behind, in their Y2K efforts. Each of our regions will be responsible for identifying and monitoring those credit unions in their region which need additional supervision to ensure compliance. Those credit unions representing the highest risk will receive an on-site contact and monthly supervision. Any credit union with a Y2K rating other than satisfactory will be subject to an enhanced supervision program and monitored on a regular basis.

### **CREDIT UNION EDUCATION EFFORTS**

Since our last report, we have drafted a Letter to Credit Unions on Liquidity and are working on Letters on Crisis Management and Day-One Operations. NCUA continues to offer our assistance to various trade organizations by participating in education workshops. We will be participating in an industry satellite broadcast later this month.

### **CORPORATE CREDIT UNIONS**

NCUA's Office of Corporate Credit Unions is responsible for ensuring all corporate credit unions are prepared for the Year 2000. As of December 31, 1998, all 38 corporate credit unions were rated Satisfactory (please see Attachment 2).

Our Corporate Credit Union examiner staff continues to work with corporate credit unions to stay informed on their progress. Individual supervision plans have been developed for 1999.

One corporate credit union received a waiver for the testing milestone date due to an interface which had not been tested. We do not view this to be a significant issue and have directed that credit union to complete its testing by March 31, 1999.

Corporate credit unions are restructuring their balance sheets in anticipation of higher natural person credit union liquidity demands. Most funds are being kept in overnight portfolios. Corporate credit unions have also taken the following Y2K liquidity steps:

- Communicated with member credit unions to determine their liquidity needs and established lines of credit.
- Offered Year 2000 Certificates of Deposit which mature in December 1999.
- Purchased investments which mature in the fourth quarter of 1999.
- Conducted seminars with member credit unions to discuss Year 2000 issues.
- Evaluated loan securitization programs.

### **OTHER EFFORTS**

Section V of Attachment 3 provides an update on the agency's approach to business resumption and contingency plans. Core business functions addressed in the agency's plan include communications, liquidity, and, credit union supervision and enforcement. NCUA also continues to work with the FFIEC Contingency Planning Working Group to coordinate and address liquidity, communications, infrastructure, key players, international payment systems, fraud, nonviable institutions, service providers and software vendors and sharing resources.

NCUA continues to analyze and position the National Credit Union Share Insurance Fund's expected cash flows for the last half of the year to ensure ample liquidity is available to credit unions and the agency. The Chairman of the NCUA Board has also testified before the House Banking Committee and Appropriations Subcommittee supporting removal of the limitation on Central Liquidity Facility borrowing. The agency is working alternatives to assure credit union liquidity needs are supported through the CLF. Guidance on liquidity planning will be issued shortly in a Letter to Credit Unions requiring each credit union to establish its liquidity plan and monitor it closely. Additionally, examiner staff will be discussing liquidity planning with credit union officials during each contact to ensure management is taking appropriate steps to address liquidity planning.

## **Summary**

In conclusion, credit unions are demonstrating progress in managing resolution of Year 2000 issues. Our examiners have been working with their credit unions on Year 2000 issues since mid-1997. Periodic examinations and supervision contacts provide the NCUA with a qualitative assessment of each credit union's Year 2000 status. Risk ratings are periodically assessed and updated. NCUA continues to provide guidance to credit unions on Year 2000 issues through its Letters to Credit Unions, news articles and public events.

Credit unions have devoted significant resources becoming Year 2000 ready. The number of credit unions rated Needs Improvement has declined 73% in the last 6 months, and although the number of Unsatisfactory credit unions has increased in the last quarter, this is a natural function of the supervision process, winnowing down the credit union population to those with significant problems. These credit unions have received additional guidance and will be monitored closely in order to assess their progress towards resolving major issues resolved prior to the date change.



**Industry Progress - Systems****RENOVATION PHASE<sup>1</sup>**

Completion Category Percentage	# of Critical Systems at 12/31/98 - Completion Category	12/31/98 % of Systems - Completion Category	9/30/98 % of Systems - Completion Category	6/30/98 % of Systems - Completion Category	3/31/98 % of Systems - Completion Category	12/31/97 % of Systems - Completion Category
0 to 25%	2,298	1.87%	5.7%	12.8%	24.7%	59.3%
26% to 50%	1,690	1.38%	4.5%	10.7%	19.4%	18.2%
51% to 75%	2,978	2.43%	7.9%	16.0%	12.6%	10.0%
76% to 99%	7,664	6.26%	15.2%	21.9%	21.6%	9.3%
Compliant	107,751	88.06%	66.7%	38.7%	21.8%	3.0%
<b>Total</b>	<b>122,381</b>	<b>100%</b>	<b>100.0%</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>

**TESTING PHASE**

Completion Category Percentage	# of Critical Systems at 12/31/98 - Completion Category	12/31/98 % of Systems - Completion Category	9/30/98 % of Systems - Completion Category	6/30/98 % of Systems - Completion Category	3/31/98 % of Systems - Completion Category	12/31/97 % of Systems - Completion Category
0 to 25%	13,330	10.97%	32.6%	36.2%	41.7%	51.3%
26% to 50%	6,791	5.60%	9.5%	9.8%	15.0%	19.8%
51% to 75%	9,990	8.24%	9.3%	13.0%	10.5%	16.8%
76% to 99%	22,726	18.74%	16.0%	12.9%	12.3%	9.0%
Compliant	68,438	56.43%	32.6%	28.1%	20.5%	3.0%
<b>Total</b>	<b>121,275</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>

<sup>1</sup> Credit unions relying on vendors are required to report systems in the renovation phase until a vendor has delivered the system to the credit union. If a vendor is in the renovation phase for a system, the credit union reports that system in the 26% to 50% completion category. If the vendor is in the testing phase, the credit union reports that system in the 51% to 75% completion category for the renovation phase. If the vendor is in the implementation phase, the credit union reports that system in the 76% to 99% renovated completion category. Consequently, the above reporting is a more conservative approach.

**Industry Progress - Systems****IMPLEMENTATION PHASE**

<b>Completion Category Percentage</b>	<b># of Critical Systems at 12/31/98 - Completion Category</b>	<b># of Critical Systems at 12/31/98</b>	<b>9/30/98 % of Systems - Completion Category</b>	<b>6/30/98 % of Systems - Completion Category</b>	<b>3/31/98 % of Systems - Completion Category</b>	<b>12/31/97 % of Systems - Completion Category</b>
<b>0 to 25%</b>	8,249	9.17%	11.2%	13.8%	13.0%	22.4%
<b>26% to 50%</b>	2,443	2.72%	3.1%	4.5%	7.0%	8.9%
<b>51% to 75%</b>	3,189	3.55%	3.8%	4.6%	4.8%	10.5%
<b>76% to 99%</b>	10,350	11.51%	13.0%	12.2%	23.8%	32.9%
<b>Compliant</b>	65,721	73.06%	68.9%	64.9%	51.5%	25.1%
<b>Total</b>	89,952	100%	100%	100%	100%	100%

**Credit Unions Renovated\***

Number of Members	Count	Assets
Less than 1,000	3,334	57,287,277,394
Between 1,000 and 10,000	4,033	58,326,582,816
Between 10,000 and 50,000	699	74,981,157,280
Over 50,000	99	72,185,083,176
Total	8,165	262,780,100,666

Asset Peer Group	Count	Assets
Less than \$2,000,000	2,581	2,192,006,010
Between \$2,000,000 and \$10,000,000	2,958	14,826,880,250
Between \$10,000,001 and \$50,000,000	1,870	41,843,217,837
Greater than \$50,000,000	756	203,917,996,569
Total	8,165	262,780,100,666

**Credit Unions Not Renovated**

Number of Members	Count	Assets
Less than 1,000	482	7,737,511,667
Between 1,000 and 10,000	1,608	33,439,162,623
Between 10,000 and 50,000	650	75,135,395,902
Over 50,000	128	77,319,477,310
Total	2,868	193,631,547,502

Asset Peer Group	Count	Assets
Less than \$2,000,000	363	327,933,312
Between \$2,000,000 and \$10,000,000	733	4,035,192,169
Between \$10,000,001 and \$50,000,000	1,034	25,012,847,139
Greater than \$50,000,000	738	164,255,574,882
Total	2,868	193,631,547,502

**Credit Unions Not Renovated but Share & Loan Systems are 100% Renovated**

Number of Members	Count	Assets
Less than 1,000	175	4,820,321,479
Between 1,000 and 10,000	813	18,710,466,194
Between 10,000 and 50,000	318	37,727,668,130
Over 50,000	59	32,903,046,097
	1,365	94,161,501,900

Asset Peer Group	Count	Assets
Less than \$2,000,000	126	138,322,242
Between \$2,000,000 and \$10,000,000	375	2,172,276,723
Between \$10,000,001 and \$50,000,000	511	12,214,251,595
Greater than \$50,000,000	353	79,636,651,340
Total	1,365	94,161,501,900

All credit union data includes 38 corporate credit unions representing \$67 billion in assets. Page 3 & 4 contains a table of corporate credit unions alone. Of the non renovated credit unions above, includes 11 corporate credit unions totaling \$11.6 billion dollars.

**CREDIT UNIONS NOT RENOVATED WITH WAIVERS**

Number of Members	Count	Assets
Less than 1,000	15	17,744,908
Between 1,000 and 10,000	51	932,212,830
Between 10,000 and 50,000	14	1,652,967,899
Over 50,000	8	5,029,858,185
Total	88	7,632,783,822

Asset Peer Group	Count	Assets
Less than \$2,000,000	12	11,297,910
Between \$2,000,000 and \$10,000,000	17	88,031,173
Between \$10,000,001 and \$50,000,000	38	851,048,211
Greater than \$50,000,000	21	6,682,406,528
Total	88	7,632,783,822

**CREDIT UNIONS NOT RENOVATED WITH FORMAL ACTION**

Number of Members	Count	Assets
Less than 1,000	4	7,620,869
Between 1,000 and 10,000	10	159,466,223
Between 10,000 and 50,000	3	751,342,918
Over 50,000	1	352,000,163
Total	18	1,270,430,173

Asset Peer Group	Count	Assets
Less than \$2,000,000	3	3,452,837
Between \$2,000,000 and \$10,000,000	4	19,970,319
Between \$10,000,001 and \$50,000,000	7	143,663,936
Greater than 50,000,000	4	1,103,343,081
Total	18	1,270,430,173

**CORPORATE CREDIT UNIONS RENOVATED**

Number of Members	Count	Assets
Less than 1,000	24	52,370,609,497
Between 1,000 and 10,000	1	3,588,349,027
Total	25	55,958,958,524

Asset Peer Group	Count	Assets
Between \$2,000,000 and \$10,000,000	1	5,657,682
Between \$10,000,001 and \$50,000,000	25	55,953,300,843
Total	26	55,958,958,525

**CORPORATE CREDIT UNIONS NOT RENOVATED**

<b>Membership Group</b>	<b>Count</b>	<b>Assets</b>
Less than 1,000	10	6,979,447,840
Between 1,000 and 10,000	2	4,666,413,854
	12	11,645,861,694

<b>Asset Peer Group</b>	<b>Count</b>	<b>Assets</b>
Greater than 50,000,000	12	11,645,861,694
Total	12	11,645,861,694

**Status of the National Credit Union Administration's Year 2000 Efforts**  
**February 11, 1999**

*I. Overall Progress. Provide a report of the status of agency efforts to address the year 2000 problem, which includes an agency-wide status of the total number of mission-critical systems.*

For the past four years, the Office of Technology and Information Services (OTIS) has been working to modernize the entire NCUA information systems infrastructure. This project included: replacing our legacy mainframe host, system software, database, and communications network with a new client/server architecture; replacing all desktop workstations; refurbishing all examiner laptop computers; upgrading to a new operating system platform and office automation suite; and rewriting every custom information system in the agency using the most current tools, techniques, and processes. From the beginning, a key requirement of this modernization process was complete Year 2000 readiness. As a result of this process, we have:

- ☐ Identified, replaced and tested all critical internal automated information systems and placed these Y2K-ready systems in production throughout the agency (11/30/1998).
- ☐ Identified all data exchanges with outside information systems and either tested, or are currently testing these interfaces with our systems (dependent on the Y2K status of the data exchange system).
- ☐ Identified and are currently monitoring the Y2K progress of all telecommunications and electrical power systems supplied by outside vendors.
- ☐ Identified and are currently monitoring and evaluating all physical infrastructure systems used by the agency (building systems, HVAC, security, fire suppression, elevators, office equipment, etc.) and provided by outside vendors to ensure Y2K readiness.
- ☐ Identified and are now working with our external vendors who provide non-critical systems support to the agency to ensure Y2K readiness.

The following table shows the status of our critical, internally supported information systems.

Total Number of Mission Critical	Number Compliant	Number to be Replaced	Number to be Repaired (Validated)	Number to be Retired
7	7	0	0	0

Detailed below is a description of each of these critical systems; they have all been verified as Y2K ready, and are now in production:

- ☐ **AIRES** Automated field examination system and supporting applications.
- ☐ **AMAC** Asset Management and Assistance Center systems used to support the program needs of the AMAC.
- ☐ **Call Report** Automated 5300/5310 reporting systems used by most credit unions.

- ❑ **OSCAR** Collection of all internal “backoffice” application and support systems used to process and report credit union financial, statistical and examination data (MACS, EXAM, TMS, F&S, etc.).
- ❑ **IT Infrastructure** All components of our IT infrastructure (hardware, software, networks and infrastructure telecommunications).
- ❑ **Office Automation** All third-party proprietary applications used for word processing, spreadsheets, databases, presentation graphics, operating systems, database engines and related systems software.
- ❑ **SAP R/3** Portions of SAP R/3 implemented thus far at NCUA include the Financial (FI), Administrative Control (CO), and portions of the Material Management (MM) modules.

**II. Progress of Systems Under Repair. Provide a report of the status of agency efforts to address the year 2000 problem which includes the status of systems under repair.**

**a. Status of systems under repair.**

We have seven internally supported information systems as discussed above.

	Assessment	Renovation	Validation	Implementation
Milestones	1/31/1998	5/29/1998	6/30/1998	12/31/1998
# Completed	7	7	7	7

**b. Description of Progress. Provide a description of progress for fixing or replacing mission-critical systems.**

All internally supported mission critical systems have been tested as Y2K ready and placed into production.

**c. Status of Non-Mission Critical Systems. Provide a description of progress in fixing non-mission critical systems, including measures that demonstrate progress.**

- ❑ We have identified and inventoried all known non-mission critical vendor supported information systems (Westlaw, Bloomberg, etc.).
- ❑ We contracted with an outside vendor to obtain written Y2K readiness documentation from all vendors providing products, services, and systems to the agency. We are currently reviewing the responses from letters sent to vendors and are testing and/or verifying these systems for Y2K readiness. We will continue to work with all our vendors until all externally supplied, non-critical systems are verified ready.
- ❑ We have identified all non-critical data exchanges with outside information systems and either tested, or are currently testing these interfaces with our systems (dependent on the Y2K status of the data exchange system).  
We have identified and are currently monitoring and evaluating all non-critical physical infrastructure systems used by the agency (elevators, office automation equipment, etc.) provided by outside vendors to ensure Y2K readiness.

- We are currently replacing our vendor-supplied CDCU general ledger and loan system and moving these functions into our Y2K ready SAP enterprise support system. This work will be completed by June 30, 1999.

*d. Data Exchanges. Provide a description of the status of efforts to inventory all data exchanges with outside entities and the method for assuring that those organizations will be or have been contacted, particularly, State governments. Provide a description of progress on making data exchanges compliant.*

The Office of Technology and Information Services has compiled an inventory of all external data exchanges used by the agency. This includes interfaces with Treasury, GSA, Mellon Bank and credit union IT systems. These interfaces either have already been or are currently being tested for Y2K readiness as part of our overall agency Y2K testing plan. We are testing each interface when the owner of the external system notifies us of their data Y2K readiness.

NCUA has developed a common shared credit union examination system and credit union call reports (5300 and 5310) with state credit union regulatory authorities. Therefore, as changes to these systems occur, they are automatically provided to the state regulatory authorities assuring that both parties have updated systems which are Year 2000 ready.

We have contacted interface owners by letters, phone calls and website review. We have provided educational material through our "Letter to Credit Unions" distribution process with regard to Year 2000 readiness and data interfaces. NCUA also has participated in over 340 formal training and educational sessions attended by credit union officials during 1998.

*e. Other Problem Areas. Provide a description of efforts to address the year 2000 problem in other areas, including biomedical and laboratory equipment and any other products or devices using embedded chips.*

NCUA does not operate any biomedical or laboratory equipment. Our use of embedded chips is related to building systems. We are currently in the process of requiring vendors to respond specifically to the question of Y2K readiness in the embedded chips used in our building systems.

*f. Buildings Owned or Managed by the Agency. Provide a description of efforts to address the year 2000 problem for buildings that your agency owns or manages. If your buildings are owned or managed by GSA, you should only report on those systems for which you have direct responsibility. You do not need to report on systems, which are the responsibility of GSA. Please indicate if you are a member of the Building Systems Working Group of the Year 2000 Subcommittee of the CIO Council.*

We do not occupy any buildings owned or operated by GSA. We have inventoried all non-IT components of the agency's physical plant with potential embedded computer technology, such as building security, fire detection and suppression, elevators, and environmental control systems.

NCUA owns two buildings, which include its central office and leases space for regional offices and its Asset Management and Assistance Center. Our efforts to address the Y2K problem for the buildings we own or manage are as follows:

1. Central Office and Region II (Located in the same building as the central office).



- ☐ Identified and assessed all critical and non-critical systems for readiness.
- ☐ Took corrective actions as necessary to make the systems Y2K ready.
- ☐ In the process of testing all systems required to be Y2K ready.

2. Regional Offices and Asset Management & Assistance Center (AMAC).

- ☐ Sent letters to the management companies of all offices.
- ☐ Received responses.
- ☐ Sending follow-up letters as needed.

3. Utilities -- Monitoring progress of all utilities that will affect our agency by accessing the available web sites or by direct correspondence.

NCUA's Director of Administration will represent the agency on the Building Systems Working Group of the Y2K Subcommittee of the CIO Council.

*g. Telecommunications Systems Owned or Managed by the Agency. Provide a description of efforts to address the year 2000 problem in the telecommunications systems that your agency owns or manages. If your systems are owned or managed by GSA, you do not have to report on these systems. Please indicate whether or not you are a member of the Telecommunications Working Group of the Year 2000 Subcommittee of the CIO Council.*

Our nationwide voice and data telecommunications services are provided by Sprint under the FTS 2000 contract. We have identified and are monitoring the local telecommunications companies who provide service to our regional and central offices, primarily through their Internet web sites. Since we have no direct control over these service providers, we have identified this area as our primary concern for potential agency systems continuity problems and are addressing this issue in our contingency planning efforts.

NCUA is not a member of the Telecommunications Working Group of the Year 2000 Subcommittee of the CIO Council.

*h. Government-Wide Systems. Provide a description of the status of the year 2000 readiness of each government-wide system operated by the agency (e.g., GSA will report on FTS 2000).*

We do not operate any government-wide systems. However, we utilize several services provided by other government agencies. These include the:

- ☐ GSA PIRS (human resources) system and PARS (payroll) data interface.
- ☐ Treasury GOALS and CASH-LINK financial reporting systems.
- ☐ IRS FinCEN-SAR (Financial Crimes Enforcement Network) database.
- ☐ Library of Congress WESTLAW (legal research) system.

The PIRS systems and PARS data interface are considered critical externally supplied services. PIRS has been tested by another Federal government agency and GSA has notified us that it is Y2K ready. We are now in the process of obtaining adequate documentation to verify this from GSA. The PARS data interface is Y2K ready; however, we do not use any date sensitive data from this interface. While the remaining systems are non-critical for our purposes, we continue to monitor their Y2K readiness status.

- i. *Other Evidence of Progress.* Please include any additional information that demonstrates your agency's progress. This could include charts or graphs indicating actual progress against your agency's schedule, lists of mission critical systems with schedules, success stories, or any other presentations.

All our critical internally developed and supported information systems have been successfully renovated, validated and put into production. We now are working with outside vendors to ensure the systems, services and data they provide to us is Y2K ready. We continue to test our production Y2K ready systems. This process will continue throughout 1999. We have in place a process to quickly identify and correct any additional Y2K issues we discover.

- j. *Describe efforts to ensure that Federally supported, State-run programs (including those programs run by Territories and the District of Columbia) will be able to provide services and benefits. In particular, Federal Agencies should be sensitive to programs that will have a direct and immediate affect on individuals' health, safety, or well being. Include a description of efforts to assess the impact of the year 2000 problem and to assure that the program will operate. In addition, provide the following information for those programs listed in Attachment D (if the information is not available, provide dates when it will be available.*

- ☐ *The date when each State's systems supporting the program will be Y2K compliant.*
- ☐ *A list of States, if any, for which the Y2K problem is likely to cause significant difficulties in the State's operation of the program. Also provide a list of States which are not likely to encounter significant difficulties.*
- ☐ *For those States likely to have significant difficulties, a brief description of any action that the Department is taking to assure that the program will operate.*

We supply IBM ThinkPad portable computers, loaded with our AIRES credit union examination platform, to all State Supervisory Authorities (SSAs). Both the hardware and the software have already been validated as Y2K ready. As changes to these systems occur, they are automatically provided to the state regulatory authorities assuring that both parties have updated systems which are Year 2000 ready.

### **III. Verification Efforts**

- a. *Describe the process by which mission critical systems are identified as Y2K compliant for purposes of this report.*

OTIS began testing agency internally developed and maintained applications in December 1997. This testing had three phases:

1. Desk-checking – OTIS programmers reviewed, standardized and corrected any Y2K computer code problems and errors.
2. Individual application testing – OTIS staff tested individual programs to check for Y2K problems and errors.
3. End-user testing – agency users of application systems input data and reviewed reporting results to verify accuracy and Y2K readiness of agency systems.

Controlled end-user testing was performed on these systems in the Region III (Atlanta) office in June, August and September 1998. The June tests revealed three internal applications that did not pass all end-user Y2K tests (AIRES, MACS and Expense programs). The August and September tests revealed all end-user Y2K tests were successful, including those three systems mentioned above.

The AMAC loan liquidation (CRUISE) and asset management (ALMS) systems, supplied by an outside vendor, were updated and tested for Y2K readiness. One Y2K problem was found and immediately corrected during this first testing phase. AMAC users ran the old, non-compliant versions of these systems and the new, Y2K ready versions in parallel during October 1998. No further Y2K readiness problems were detected during this parallel testing phase and the Y2K ready system is now in production.

End-user testing will be performed in all regional and central offices during the first quarter of 1999. This testing will be proctored by OTIS staff and designed to provide confidence to all agency users that the systems they use on a daily basis are Y2K ready and will operate properly on January 1, 2000.

To ensure that compliant systems remain ready, NCUA has implemented a configuration management control system. As end-users certify each system ready, we move the source code for that system into our Visual Source Safe repository. No new software will go into production without first being tested for Y2K readiness, then checked into Visual Source Safe. We will minimize the deployment of new software in 1999, making only those changes deemed necessary and required to our agency standard computing environment. We will maintain our test environment throughout 1999 and have established procedures to report and repair any Y2K problems or issues as they are identified.

*b. Describe how and to what extent internal performance reports, (i.e., compliance of systems repaired and replaced) are independently verified. Provide a brief description of activities to assure independent verification that systems are fixed and to assure that information is accurate. Also identify who is providing verification services (for example, Inspectors General or contractors).*

In order to get an independent assessment of our readiness status, NCUA submitted all test documentation and initial results to KPMG Peat Marwick. They have conducted three reviews of our compliance testing plans, processes, and procedures and NCUA has addressed all comments and recommendations made by KPMG. We plan on contracting for additional reviews of our readiness status, as needed, during 1999.

The NCUA Inspector General is also in the process of reviewing progress to date as well as our plans for 1999. This review is being coordinated by the IG's Office with outside contract auditors. We anticipate receiving management letters detailing any findings by the end of the first quarter of 1999.

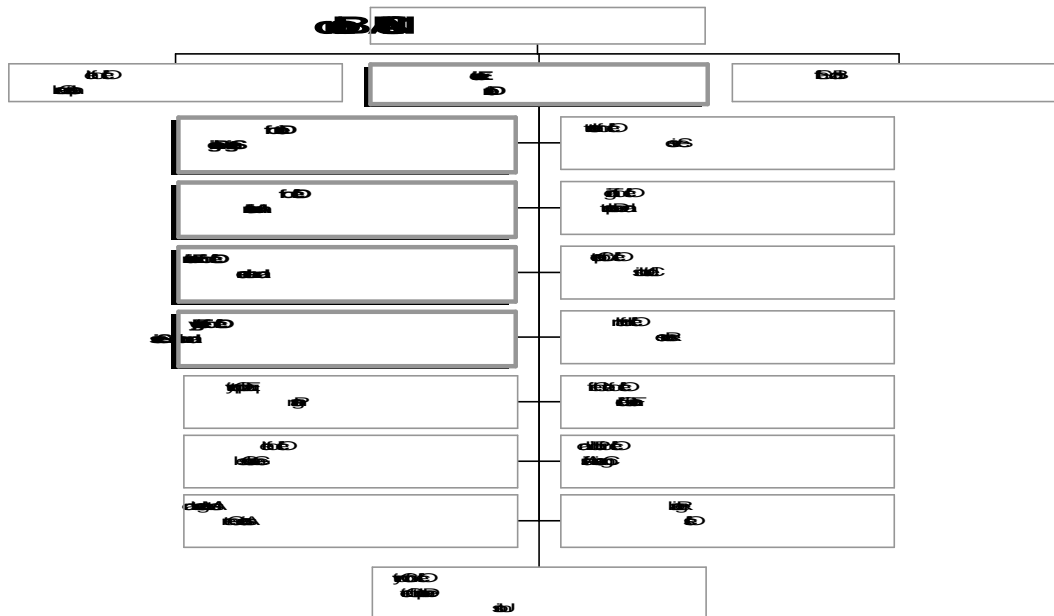
#### **IV. Organizational Responsibilities.**

*A. Describe how your Department/Agency is organized to track progress in addressing the year 2000 problem.*

There are two aspects to NCUA's Y2K efforts. The first deals with our internal information systems and related information technology, IT resources, external data interfaces, and certain aspects of the Agency's infrastructure containing embedded computer technology, e.g., fire detection and suppression systems, elevator systems, telephone systems, security systems, and environmental control systems. The second is our regulatory effort to ensure the successful Y2K readiness of the 11,238 natural person credit unions insured by NCUA and the 39 corporate credit unions.

1. Organization. Describe the responsible organizations for addressing the year 2000 problem within your Department/Agency and provide an organizational chart.

The NCUA Board has primary Year 2000 oversight responsibility. Specific oversight coordination has been assigned to the Director of Strategic Planning, an executive level position located in the Central Office in Alexandria, Virginia. This position reports to the Executive Director, who in turn, reports to the NCUA Board of Directors. The Office of Examination and Insurance is responsible for programs monitoring and supervising the readiness of federally insured credit unions. The Office of Corporate Credit Unions is responsible for programs monitoring and supervising the readiness of corporate credit unions. The Chief Information Officer (Director of the Office of Technology and Information Services) is responsible for the Y2K readiness of all of NCUA's internal information technology resources. The Director of Administration is responsible for the Y2K readiness of the agency's physical plant facilities.



2. Internal Accountability. Describe your Agency's processes for assuring internal accountability of the responsible organizations. Include any quantitative measures used to track performance and other methods to determine whether the responsible organizations are performing according to plan.

The Director of Strategic Planning is responsible for coordination and oversight for all NCUA Year 2000 programs. Each office provides a monthly Year 2000 update to the Executive Director and the NCUA Board through the Director of Strategic Planning. Monitoring of

problems with meeting internal target dates is identified and resolved during this process. The Office of Inspector General is also monitoring target dates and progress and reporting any concerns to the NCUA Board.

The Office of Examination and Insurance and the Office of Corporate Credit Unions are responsible for the supervision of federally insured credit unions and the programs that monitor their Y2K readiness. The status of credit union readiness is reported by examiners during their supervision and examination contacts and by specific Year 2000 reporting provided quarterly by all Federally insured credit unions. These status reports are measured against the contingency plan targets for accomplishing various levels of readiness established by the NCUA Board.

3. Oversight. *Describe the management actions taken and by whom when a responsible organization falls behind schedule.*

The Director of Strategic Planning, in conjunction with the assigned Office Director, is responsible for recognizing schedule adjustments and proposing resolution or action to the NCUA Board. The following actions are examples of the process in place:

Each Office provides monthly Y2K readiness reports to the Executive Director and the NCUA Board. In March 1998, the NCUA Board approved a plan submitted by the Office of Examination and Insurance and the Regional Directors for a one time adjustment to the safety and soundness examination cycle to provide ability for examiners to continue to devote the planned allocation of time for Year 2000 contacts during 1998.

During April 1998, in conjunction with passage of new legislation to permit NCUA to examine credit union information system vendors, the NCUA Board has approved obtaining outside contracted services to assist in Year 2000 readiness reviews to supplement NCUA resources.

V. Business Continuity and Contingency Planning. *Describe your agency's approach to and progress in developing its Business Continuity and Contingency Plan (BCCP). Agencies should use the GAO document, Year 2000 Computing Crisis: Business Continuity and Contingency Planning, (August 1998), as a guide to such planning. Describe the measures of progress being used to assure that local plans are developed and tested (e.g., status of management assurances that plans are complete and have been tested) and provide a status of those measures. Please also include the following information in the description of your planning activity. (If you do not have the information requested, state when it will be available.):*

*1. Identify the high-level core business functions addressed in your BCCP.*

High-level core business functions which are addressed in the Business Resumption Plan include communications, credit union supervision, liquidity back up, and credit union supervisory enforcement. Business continuity plans call for crisis teams to be staffed at a minimal level throughout the date change period with all employees on call to bolster staffing needs as the situation demands.

*2. Provide a master schedule and key milestones for development, testing, and implementation of you BCCP.*

NCUA has established a Year 2000 Task Force made up of key senior Office Directors under the chairmanship of the Director of Strategic Planning. The task force completed the draft NCUA Business Resumption plan in October 1998. Completion of key plan projects (National Liquidity Response Plan, Liquidity Letter to Credit Unions and NCUA's internal Crisis Communication Plan) originally scheduled for December 31, 1998 are now set for February 1999. Training staff and testing the plan is scheduled for completion by June 30, 1999. This effort is primarily focused on assisting credit unions to resume operations under emergency conditions and handling the administration of increased supervisory actions. The draft plan identifies key concerns/risks and planned agency responses to provide the resources necessary to meet our regulatory responsibilities with Federally insured credit unions.

The following is an overview of the major elements of our Business Resumption Plan:

- ❑ Prepare Letters to Credit Unions:
  - Liquidity Planning and Year 2000*
  - Crisis Management and Addressing the Media*
  - Backing-up Data and Suggested Strategy for Day One System Operation/Testing*
- ❑ Expand on NCUA's January 1998, contingency plan to include a more detailed National Liquidity Response Plan to address several levels of risks including multiple regional demands or a single large credit union liquidity need.
- ❑ Develop Year 2000 crisis response procedures for each office and update disaster recovery plans or develop individual office business resumption plans.
- ❑ Develop and coordinate plans and information to assist in vendor conversions for natural person credit unions.
- ❑ Develop and coordinate plans and information to assist in vendor conversions for corporate credit unions.
- ❑ Develop a Year 2000 Technical Resumption Plan that identifies internal systems, their readiness and a contingency plan for assuring resuming the use of the system or working around a Year 2000 problem.
- ❑ Prepare necessary legal support or provide for other contingencies including contracted services and delegated authorities for prompt action.

For our internal systems, we have drafted a Year 2000 Technical Resumption Plan (Y2KTRP). It is a listing of the automated systems – hardware, software, and technical infrastructure – that NCUA uses in the performance of its daily business. The Y2KTRP identifies each agency technical system, product and service; its vendor; and its current Year 2000 readiness status. Furthermore, the Y2KTRP outlines specific steps to follow if a particular system, product, or service is not fully ready by the Year 2000 or otherwise fails when we enter the new millennium.

We also have a Disaster Recovery Plan, which will be implemented in the event of any large-scale disaster, including a Y2K failure that causes an interruption of service in one of our critical systems. This plan was last tested in December 1998 and will be tested again in 1999.

- VI. Exception Report on Systems. *Provide a brief status of work on each mission-critical system which is not Year 2000 compliant that is being either (1) being replaced and has fallen behind the agency's internal schedule by two months or more, or (2) being repaired and has fallen behind the agency's milestones by two months or more.*

All internally supported mission critical systems have been tested as Y2K ready and placed into production. The telecommunication and electrical power systems we rely on from outside vendors have been inventoried and are being watched for Y2K readiness status. We continue working with central and regional office building management companies on selected HVAC, fire suppression, security and elevator systems that have not yet been verified as Y2K ready.

- VII. Systems Scheduled for Implementation after March 1999. *Please include a list of those mission critical systems where repair or replacement cannot be implemented by the March 1999 deadline. The list should include the title of the system, a brief description of what the system does, the reason that the system cannot be implemented by the deadline, and when a contingency plan will be in place.*

All internally supported mission critical systems have been tested as Y2K ready and placed into production.

VIII. Other Management Information.

- a. *On the first row, report your estimates of costs associated with year 2000 remediation, including both information technology costs as well as costs associated with non-IT systems. Report totals in millions of dollars. (For amounts under \$1 million report to tenths of a million.)*

Fiscal Year	1996	1997	1998	1999	2000	Total
Internal Systems	\$0.7	\$2.2	\$0.6	\$0.1	\$0*	\$3.6
Regulatory Program	\$0	\$1.1	\$7.1	\$16.4**	\$6.4**	\$31.0

\* We anticipate no Y2K-related costs for internal systems in Fiscal Year 2000.

\*\* Indirect costs have been included. We have recently revised our Regulatory Program Cost estimates to reflect indirect costs in addition to direct costs which has resulted in an increase to the originally budgeted Regulatory Program costs.

*b. Problems Affecting Progress.*

Internal program – None.

Credit union program -- Field staffing losses and hiring limitations required a one-time extension of the regular examination cycle for 1998 - 1999. This extension has provided time to complete ongoing Y2K supervisory reviews and contacts. The Office of Examination and Insurance has had difficulty in hiring senior program officers for Y2K work. These positions were filled during the third quarter of 1998.

NCUA has established intensive recruiting and staffing initiatives to fill and reduce the level of vacancies. These initiatives include a general pay raise for all employees, and a bonus paid to new examiner and field employees who continue to work through the date change period.

NCUA continues to experience difficulty hiring examiner staff. However, until such time as these initiatives result in improved staffing levels, the NCUA has adopted contingency plans to assure the completion of critical programs and responsibilities such as Year 2000 readiness and the Federal credit union and Federally-insured State chartered credit union examination programs. These plans minimize the use of examiner details, training and require overtime work. These plans will remain in effect until desired staffing levels are achieved.